



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: April 6, 2016
TO: Education and Local Government Committee
FROM: Cynthia Hollimon
RE: Fiscal Implications of Fire Insurance Tax Redistribution

This memo is in response to the committee's request for information regarding the fiscal implication of redirecting a portion of the state's fire insurance tax collections to support worker's compensation coverage for volunteer firefighters. Currently, all fire insurance tax collections are deposited into the state general fund. The most recent LFD forecast estimates that fire insurance tax revenue will be about \$5.5 and \$5.7 million in FYs 2018 and 2019 respectively.

If you have further questions regarding this information, please don't hesitate to contact me at 444-5387 or chollimon@mt.gov.

Education & Local Government Interim Committee
April 6, 2016
Exhibit 3

HISTORY OF FIRE INSURANCE TAX RATE AND DISTRIBUTION

1911 – Fire insurance premium tax is first enacted at a rate of 0.25% of premiums collected for the purposes of maintaining the department of the State Fire Marshal

1969 – Tax rate is increased to 0.50%

1971 – Tax rate is increased to 0.75%

1991 – Tax rate is increased to 1.00% and diverted to the Department of Justice to support prevention and investigation activities

1997 – Tax rate is increased to 2.50% to be deposited in the general fund, with the 1.50% increase intended to support pensions for firefighters to be paid from the general fund

FISCAL INFORMATION REGARDING FIRE TAX AND PROPOSED LEGISLATION

Assumptions provided by the Montana Fire Alliance:

- There are approximately 7500 volunteer firefighters in the state.
- Approximately 1500 of these volunteers are currently covered by workers' compensation in departments receiving between \$20,000 and \$40,000 annually in operating funds.
- The average workers' compensation premium is \$102 annually.

Expenditures and Revenues

Using these assumptions to calculate the scenario requiring the highest cost to the state gives the following scenario and cost:

- 1500 volunteer firefighters work in departments receiving between \$20,000 and \$40,000 annually in operating funds and will have 50% of their premium costs covered by the state. This would cost the state \$76,500.
- 6000 volunteer firefighters work in departments receiving less than \$20,000 annually in operating funds and will have 95% of their premium costs covered by the state. This would cost the state \$581,400.
- Assuming this distribution of volunteer firefighters to departments, which should be the highest end of the range of state liability, the total possible cost of benefits to the state would be \$657,900.
- It is likely that the Department of Labor and Industry would require at least a partial FTE to process applications, as well as start-up operational costs for the position.

The most recent estimates by LFD anticipate that 12.0% of the state fire insurance premium tax collections would be \$661,973 in FY 2018 and \$686,688 in FY 2019. In this highest cost scenario, these amounts would be sufficient to cover benefits, but not additional costs in operations and personal services. However, given that this scenario is likely quite a bit higher

than actual benefits would cost, the revenue source would probably be sufficient. In addition, the fire alliance has indicated that the number of volunteer firefighters is only holding steady or slightly decreasing year-over-year, so this revenue stream would likely be sufficient going forward as well.

Without more concrete information on numbers of volunteer firefighters serving in each operational funding bracket, the committee might consider a one-time-only appropriation from this or another revenue source to fund start-up costs for the program.

General Fund Impact

This bill results in a diversion from the general fund. However, it should not explicitly decrease revenues as fire insurance premium tax is a part of the larger insurance premium tax revenue source which is increasing by much more than \$700,000 year-over-year. It would slightly decrease the rate of growth to the general fund from insurance tax.